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Financing of the International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994

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Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Managing after-service health insurance liabilities

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the sixth report of the Secretary-General on managing after-service health insurance liabilities (A/68/353). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 8 October 2013.

2. The Advisory Committee recalls that, in his report on liabilities and proposed funding for after-service health insurance benefits (A/64/366), the Secretary-General recommended approval of a number of proposals to fund the accrued liability for after-service health insurance benefits of the United Nations and to fund the annual incremental accrual for employees in the active service.

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3 The Committee further recalls that the General Assembly, in its resolution 64/241, took note of the report of the Secretary-General and requested that he submit to the Assembly at its sixty-seventh session, a report on managing after-service health insurance liabilities, bearing in mind that the "pay-as-you-go" principle remains one of the viable options, and to include in that report, information on and an analysis of, the following issues, inter alia: (a) scope and coverage of existing after-service health insurance plans; (b) administration costs related to alternative financial options; (c) arrangements for ensuring accurate funding from the different sources of funding; (d) options for contribution levels to after-service health insurance plans by its participants and by the United Nations; (e) comprehensive long-term strategies for financing after-service health insurance liabilities; (f) further measures to reduce the United Nations costs related to health-care plans; (g) after-service health insurance plans for retired public sector employees offered by their respective Governments; and (h) the financial and legal implications of changing, for current retirees and active staff members: (i) the scope and coverage of the after-service health insurance plans and (ii) the contribution levels. In the resolution, the Assembly also requested the Secretary-General to continue to validate the accrued liabilities with the figures audited by the Board of Auditors and to include this information and the outcome of the validation in the report.

4. The Advisory Committee notes that the report was postponed and has now been submitted to the sixty-eighth session of the General Assembly. The report provides the additional information requested in resolution 64/241 (see paragraph 3 above) and information on premium holidays requested by the Assembly in its in resolution 65/259.

II. Scope and coverage of existing United Nations insurance plans

5. In section II of his report, the Secretary-General provides an overview of United Nations health insurance. He indicates that the health insurance programmes of the United Nations Secretariat are self-funded schemes administered by either third-party administrators or by the Organization itself, which means that claims are financed directly through premium collections shared by the staff, retirees and the Organization in accordance with cost-sharing ratios approved by the General Assembly. He further explains that the Secretariat maintains and manages distinct health insurance reserves, in accordance with industry standards, as premium stabilization provisions for each of its self-insured health plans in order to manage possible large fluctuations in premium requirements. Table 1 of the report of the Secretary-General shows the reserve balances for the self-funded health insurance plans administered by the Secretariat.

6. The Secretary-General indicates that, in order to adjust excess reserve amounts, the Organization declares premium holidays through which the excess reserve amounts are distributed to the active and retired staff and to the participating

organizations[1] across all funding sources. He further indicates that, during the five-year period from 2009 to 2013, premium holidays have been declared for the Aetna medical and Cigna dental plans only. Upon enquiry, the Advisory Committee was provided with an analysis of the premium holidays, which is set out in the annex to the present report.

III. Updated actuarial valuation of after-service health insurance liabilities

7. Section III of the report of the Secretary-General relates to the updated actuarial valuation of United Nations after-service health insurance liabilities. The Secretary-General indicates that the most recent actuarial study to determine this accrued liability was undertaken for the financial period ending 31 December 2011. In paragraphs 18 and 19, the Secretary-General indicates that the valuation, which was based on the plan provisions in effect as at 1 January 2012, determined the net United Nations after-service health insurance obligation by applying the aggregate cost-sharing percentages to the total obligations relating to the after-service health insurance benefits and took into account the change in policy that required eligible participants to enrol in Part B of the Medicare programme of the United States. Based on the valuation, the Secretary-General indicates that the present value of the accrued liability of future benefits (net of retiree contributions) for the United Nations Secretariat was estimated at $3,654 million as at 31 December 2011 and was projected to increase to $3,943 million as at 31 December 2012.

8. In its reports on the financial statements of the United Nations for the biennium ended 31 December 2011 (A/67/5 (Vol. I)) and on United Nations peacekeeping operations for the financial period ended 30 June 2012 (A/67/5 (Vol. II)), the Board of Auditors commented on the biennial actuarial valuation of the accrued liability of future after-service health insurance benefits. The Board noted that the sharp increase in the value of the liability between 2009 and 2011 had been due to changes in the underlying actuarial assumptions, mainly the decrease in the discount rate from 6.0 per cent in 2009 to 4.5 per cent in 2011. The Board recommended, and the Secretary-General agreed, that the actuarial valuations should be done annually, instead of biennially, in order to reflect the changes in discount rates and other variables in a timelier manner. **The Advisory Committee expects that the recommendation of the Board of Auditors with regard to the**

[1] In addition to the staff and/or retirees of the United Nations Secretariat, those of other United Nations system organizations who are based in the United States are also enrolled in the United States-based health insurance plans administered by the Secretariat. These organizations include the United Nations Development Programme (UNDP), United Nations Population Fund (UNFPA), United Nations Children's Fund (UNICEF), United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), United Nations Office for Project Services (UNOPS), International Atomic Energy Agency (IAEA), United Nations Environment Programme (UNEP), United Nations Human Settlements Programme (UN-Habitat), Office of the United Nations High Commissioner for Refugees (UNHCR), International Labour Organization (ILO), International Seabed Authority, International Telecommunication Union (ITU), United Nations Institute for Training and Research (UNITAR), United Nations Industrial Development Organization (UNIDO), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and World Meteorological Organization (WMO). When premium holidays are declared, the staff/retiree contributions are refunded to the staff/retirees, while the subsidies are refunded to these participating organizations.

timing of actuarial valuations of the accrued liability for after-service health insurance benefits will be implemented as soon as possible.

9. The Secretary-General indicates that, based on the projected retirement rate of United Nations staff, the growth in liability and in expenditure to cover after-service health insurance costs for current retirees will continue to accelerate in future bienniums. He further indicates that the Board of Auditors has expressed its concern regarding the absence of specific assets to cover these liabilities and describes the need for the adoption of a funding plan in respect of the accrued liabilities as "crucial" (see A/68/353, para. 23).

10. In paragraphs 24 to 27, the Secretary-General discusses the impact of resolution 67/257, in which the General Assembly endorsed the decision of the International Civil Service Commission to support the recommendation of the United Nations Joint Staff Pension Board to raise the mandatory age of separation to age 65 years for new staff, effective no later than 1 January 2014. He indicates that, based on an actuarial determination, raising the mandatory age of separation would not have a material effect on the accrued liabilities reported prior to 1 January 2014 (see paragraph 7 above). In addition, the same study shows that raising the mandatory age of separation for current staff on an optional basis, assuming that 70 per cent of them exercise the option, would reduce the accrued liability by less than 1 per cent.

IV. Administration of after-service health insurance by the United Nations Joint Staff Pension Fund

11. The Advisory Committee notes that the United Nations Joint Staff Pension Fund was created by the General Assembly in 1949 to provide retirement, death, disability and related benefits for staff of the United Nations and other organizations admitted to its membership. The Committee notes that, since its creation, the Fund has successfully managed the contributions and administered the benefits for the retired staff of its member organizations. In this regard, the Committee notes that, as at 31 December 2012, the Fund's membership exceeded 188,000 participants and its net assets amounted to approximately $44.8 billion (see A/68/303, annex VII). Upon enquiry, the Committee was informed that, based on the rating by a global pension fund benchmarking consultant, the Fund's total asset management cost in 2012 was $79 million per year, which is 18.7 basis points (0.187 per cent) of total fund assets. The Committee was also informed that this performance compared favourably with the peer average of 46.1 basis points. Similarly, the Committee notes from paragraph 45 of the report of the Secretary-General that the industry standard cost of an asset manager, if outsourcing the management of after-service health insurance funds is considered, is approximately 0.5 per cent of the portfolio value, which further emphasizes the cost advantage of using the United Nations Joint Staff Pension Fund.

12. Upon enquiry, the Committee was informed that while the General Assembly could mandate the Fund to include after-service health insurance as part of the periodic benefits paid to retirees, the feasibility of this approach would depend on the harmonization of the after-service health insurance rules, coverage and contribution framework of the 23 member organizations of the Fund. The Committee was also informed that since pension contribution rates currently

assessed upon staff and the organizations are for the provision of pension benefits only, the inclusion of the administration of after-service health insurance benefits could have an impact on both employer and participant contributions. In addition, the Committee was informed that the inclusion of after-service health insurance would require additional funding arrangements for the liabilities that the Fund would assume.

13. **The Advisory Committee notes that the funding of after-service health insurance benefits is an issue of system-wide concern and is of the view that, in the long term, it would best be resolved by adopting a system-wide approach similar to that currently employed by the United Nations Joint Staff Pension Fund for retirement and disability benefits. The Committee is also of the view that, given its experience in administering retirement and disability benefits, the Fund would have the requisite competence to manage the resources for, and the payment of, after-service health insurance benefits as well. Taking into account the low asset management cost for the United Nations Joint Staff Pension Fund compared with the industry standard for pension funds and health insurance asset managers, the Committee is of the view that employing the Fund for this purpose would be more cost-effective than outsourcing it. Therefore, the Advisory Committee recommends that the General Assembly request the Secretary-General to examine possible options, with the objective of broadening the mandate of the Fund to include the administration of after-service health insurance benefits on a system-wide basis and accordingly to prepare a detailed proposal for consideration by the Assembly.**

V. Funding of after-service health insurance liabilities for active staff and retirees

A. Comprehensive long-term strategies for financing after-service health insurance liabilities, including arrangements for ensuring accurate funding from the different sources

14. In section IV of his report, the Secretary-General discusses various strategies for financing after-service health insurance liabilities. He indicates that a number of United Nations organizations have implemented a variety of systematic and ad hoc funding mechanisms appropriate to their respective situations, including a blend of pay-as-you-go, supplemented by additional contributions from existing reserves, one-time or periodic transfers from fund balances otherwise available for programming, and charging of fixed or incremental annual amounts ranging from 4 to 7 per cent of net salary cost rates. He indicates that the pay-as-you-go approach currently employed by the United Nations provides for the resources required to fund the United Nations share of the after-service health insurance premiums during the financial period in which such coverage is provided but does not set aside any funds or build a reserve to address accumulated or future costs which, by actuarial estimates, are expected to grow to $922 million in the 2040-2041 biennium (see figure III of the report). Upon further enquiry, the Advisory Committee was informed that the actuarial valuation did not take into account what the future budget or staffing levels of the United Nations Secretariat would be but assumed that current staff would continue their careers according to the patterns of

withdrawal, mortality and retirement used by the United Nations Joint Staff Pension Fund.

15. In that regard, the Secretary-General proposes a policy that sets aside adequate funds to meet the costs of current plan participants and future benefit liabilities through the establishment of:

(a) A charge equivalent to 4.5 per cent of total staff costs across all funding sources in order to cover the cost of benefits earned during the current period of active service with regard to active staff members who are currently accruing an entitlement towards after-service health insurance;

(b) An additional charge, to be included in common staff costs, equivalent to 2 per cent of total staff costs across all funding sources in order to address the unfunded and already accrued liabilities. The Secretary-General estimates that the full funding of these liabilities could be achieved in 20 years using this approach, after which the 2 per cent charge as well as the pay-as-you-go requirement would be discontinued.

B. Recognition of employee benefit liabilities and continuation of the pay-as-you-go approach

16. The Advisory Committee notes that International Public Sector Accounting Standard 25 requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefits or service potential arising from the service provided by an employee in exchange for employee benefits. The Committee further notes that the General Assembly, in section III of its resolution 60/255, recognized the end-of-service accrued benefit liabilities reported by the Secretary-General in his report A/60/450 and Corr.1. During its consideration of the report of the Secretary-General, the Committee was informed that, while International Public Sector Accounting Standard 25 stipulates the recognition in the financial statements of liabilities related to employee benefits, it does not prescribe how those liabilities should be funded, leaving it to the discretion of management to determine the optimal approach to ensuring that adequate resources are available to settle the recognized employee benefit liabilities as and when they fall due.

17. **While taking note of the concerns expressed by the Board of Auditors (see para. 9 above) and the Joint Inspection Unit (see A/62/541) with regard to the absence of a long-term funding strategy for the growing liability for after-service health insurance, the Advisory Committee is of the view that the objective of ensuring the availability of adequate resources to settle the recognized employee benefit liabilities can be achieved without necessarily and/or immediately creating a reserve. In that regard, the Committee is of the view that, in addition to a formal recognition of the end-of-service accrued benefit liabilities by the General Assembly (see resolution 60/255, sect. III), a commitment by the Assembly to settle future after-service health insurance obligations as they fall due would not only fulfil the requirements of International Public Sector Accounting Standard 25 but would also obviate the need, at the present time, to set up a cash reserve for that purpose. The Advisory Committee therefore recommends the continuation of the pay-as-you-go approach at the present time and further recommends that the General**

Assembly request the Secretary-General to report to the Assembly with an updated actuarial valuation of the after-service health insurance liabilities no later than the main part of the seventieth session.

C. Use of the premium holiday

18. In paragraph 41 of his report, the Secretary-General recommends that, as part of the strategy to reduce the unfunded portion of the accrued liabilities, the General Assembly might consider using that portion of the health insurance reserves that would normally accrue to Member States under the premium holiday methodology for the purpose of funding the liability. He estimates that about $1 to $5 million annually would be available for this purpose and would be used in addition to the proposed accruals to build up the reserve fund in order to accelerate the achievement of full funding of the liabilities and the elimination of the current pay-as-you-go provisions. **The Advisory Committee recommends that, at the present time, the Secretary-General continue applying the existing arrangements when premium holidays are declared.**

VI. Further measures to reduce United Nations costs relating to health insurance plans

19. In section V of his report, the Secretary-General describes initiatives that have already been put in place to further contain the costs of the health insurance programme. The initiatives include the requirement to enrol in Medicare Part B, as at 1 January 2011, for eligible United Nations retirees who reside in the United States and are covered under a United States-based plan, with the Organization reimbursing the required premium. According to the Secretary-General, the actuarial estimate of the resulting reduction in liabilities is approximately $258 million.

20. In paragraph 48 of his report, the Secretary-General outlines additional initiatives such as preventive care; changes in the deductibles of the United States-based plans; changes in the Vanbreda plan for care in the United States; implementation of a third-party administrator for the medical insurance plan for locally recruited staff in designated duty stations; and the expansion of the disease management and wellness programme to field personnel. He also indicates that the United Nations will continue to examine the feasibility of retired staff enrolling in their respective national health insurance plans as an additional cost containment measure for the Organization.

21. **The Advisory Committee commends the cost containment initiatives that have so far been undertaken by the United Nations Secretariat.**

22. In paragraphs 50 to 57, the Secretary-General discusses the cost-sharing ratios between the United Nations and plan participants. Table 3 of his report indicates that the approved ratio is 2 to 1 for United States-based plans, in accordance with General Assembly resolution 38/235 of 1983, and fifty-fifty for non-United States-based plans, in accordance with General Assembly resolution 1095 (XI) of 1957. The Secretary-General also indicates that the cost-sharing ratio was last considered by the International Civil Service Commission in 1983. The Advisory Committee recognizes that any significant changes to the scope, coverage and contribution

levels of the after-service health insurance plans would have to take into account the acquired rights of both active and retired staff members. **Nevertheless, the Advisory Committee recommends that the General Assembly request the Secretary-General to continue to explore innovative ways in which the access of participants to quality health care can be maintained while at the same time containing costs. In that regard, the Committee recommends that the General Assembly request the Secretary-General to submit proposals drawing from the experiences of other international organizations and national Governments in the implementation of design, coverage and contribution changes to their health-care plans.**

VII. Closure of the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda

23. In paragraph 67 of his report, the Secretary-General reiterates the need to establish a funding mechanism for the after-service health insurance liabilities related to the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda. He explains that liabilities have been accruing but have remained unfunded, an issue that has been raised by the Board of Auditors (see A/63/5/Add.12 and A/63/5/Add.11). As part of the eventual closure of these tribunals, the Secretary-General indicates that it will be necessary to take into account the accrued unfunded liabilities of the active and retired staff and to ensure that the residual amounts are appropriately funded. **The Advisory Committee recognizes the urgent need to resolve the issue of the unfunded after-service health insurance liabilities of the tribunals, considering their impending closure. In that regard, the Committee recommends that the General Assembly request the Secretary-General to closely monitor the after-service health insurance expenditure of the tribunals in the interim. Furthermore, should the tribunals close before a funding mechanism is approved by the Assembly, the Secretary-General could consider utilizing any available residual assets of the tribunals as an interim measure to fund their after-service employee benefit liabilities.**

VIII. Actions to be taken by the General Assembly

24. The actions requested to be taken by the General Assembly are contained in section X of the Secretary-General's report. **The Advisory Committee recommends that the General Assembly take note of the report of the Secretary-General, taking into account its comments and recommendations in paragraphs 13, 17, 18, 22 and 23 above.**

Annex

Analysis of premium holidays for the period 2009-2013

(Thousands of United States dollars)

	United Nations share		*Staff share*		*Total*	
Insurance plan and year	*Active staff*	*Retirees*	*Active staff*	*Retirees*	*Active staff*	*Retirees*
Aetna (medical)						
2009	840.1	2 435.1	554.3	625.6	1 394.4	3 060.7
2010[a]	1 657.0	6 526.4	1 044.4	1 696.7	2 701.4	8 223.1
2011	–	–	–	–	–	–
2012	744.4	3 436.1	481.3	887.6	1 225.7	4 323.7
2013	765.8	3 577.5	494.3	949.1	1 260.1	4 526.6
Subtotal	**4 007.3**	**15 975.1**	**2 574.3**	**4 159.0**	**6 581.6**	**20 134.1**
Cigna (dental)						
2009	–	–	–	–	–	–
2010	395.0	344.2	258.7	101.8	653.7	446.0
2011	–	–	–	–	–	–
2012	–	–	–	–	–	–
2013	–	–	–	–	–	–
Subtotal	**395.0**	**344.2**	**258.7**	**101.8**	**653.7**	**446.0**
Total	**4 402.3**	**16 319.3**	**2 833.0**	**4 260.8**	**7 235.3**	**20 580.1**

[a] In 2010, premium holidays declared for the Aetna medical insurance plan were equivalent to two months.